



LG&E Energy Corp.
220 West Main Street (40202)
P.O. Box 32030
Louisville, Kentucky 40232

February 13, 2004

VIA HAND DELIVERY

Mr. Thomas Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602-0615

**Re: PowerGen plc, LG&E Energy Corp., Louisville Gas & Electric Company,
and Kentucky Utilities Company (Case No. 2000-095)
and
E.ON AG, PowerGen plc, LG&E Energy Corp., Louisville Gas & Electric
Company, and Kentucky Utilities Company (Case No. 2001-104)**

Dear Mr. Dorman:

Pursuant to the Commission's Order in Case No. 2000-095, the Companies do hereby file responses to quarterly and semi-annual filing requirements contained within that Order's *Summary of Findings* and *Appendix B*. An original and four (4) copies of these responses are enclosed. The Companies responses to *Summary of Findings, No. 8* and *Appendix B, Reporting Requirements to be filed Quarterly, No. 3, Case No. 2000-095*, will be filed with the Commission, and filed separately with the Commission's Rates and Tariffs Division, no later than February 27, 2004. This delay was noted by letter filed with the Commission on February 9, 2004, a copy of which is contained within these filed documents.

All of these filing requirements are also contained in the Commission's Order in Case No. 2001-104 *Appendix A*. The Companies anticipate that annual filing requirements contained within the aforementioned Orders will be filed no later than March 31, 2004.

February 13, 2004

Mr. Thomas Dorman, Executive Director
Kentucky Public Service Commission
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Effective December 30, 2003, LG&E Energy LLC, a Kentucky limited liability company, was the successor by assignment and subsequent merger of all of the assets and liabilities of LG&E Energy Corp., a Kentucky corporation.

Should you have any questions regarding this filing, please do not hesitate to contact me at 502-627-4110 or contact Roger Hickman at 502-627-4031.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John Wolfram", with a long horizontal flourish extending to the right.

John Wolfram
Manager, Regulatory Affairs

Enclosures

Cc: William F. Feldman, KPSC Filings Division
Joyce Spear, KPSC Filings Division
Richard Raff, KPSC Division of General Counsel

**POWERGEN, PLC, LG&E ENERGY, LOUISVILLE GAS & ELECTRIC
COMPANY, AND KENTUCKY UTILITIES COMPANY**

CASE NO. 2000-095

Response to Summary of Findings, No. 8

**“...the supplemental financial reports” of LG&E and KU “should be filed with the
Commission within 45 days of the close of the reporting period.”**

Response to Appendix B, Reporting Requirements, To Be Filed Quarterly, No. 3

**“Twelve-month income statements and balance sheets. LG&E will separately
report gas and electric operations, and KU will separately report Kentucky
jurisdictional operations and other jurisdictional operations.”**

On February 9, 2004, Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company (“KU”) advised the Commission that, due to the voluminous discovery in Case Nos. 2003-00433 and 2003-00434 (the LG&E and KU Rate Cases) the requisite jurisdictional statements for the quarter ending December 31, 2003 (“the December Statements”) would be delayed. The December Statements will be filed no later than February 27, 2004. A copy of the February 9, 2004, letter is attached.



LG&E Energy LLC
220 West Main Street (40202)
P.O. Box 32030
Louisville, KY 40232

February 9, 2004

VIA HAND DELIVERY

Mr. Thomas Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602-0615

**Re: PowerGen plc, LG&E Energy Corp., Louisville Gas & Electric Company,
and Kentucky Utilities Company (Case No. 2000-095)
and
E.ON AG, PowerGen plc, LG&E Energy Corp., Louisville Gas & Electric
Company, and Kentucky Utilities Company (Case No. 2001-104)**

Dear Mr. Dorman:

The Commission's Order dated May 15, 2000, in Case No. 2000-095, *Summary of Findings, No. 8 and Appendix B, Reporting Requirements to be filed Quarterly, No. 3*, directs Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") to file to quarterly Twelve-Month Ended Income Statements and Balance Sheets ("the statements"). This directive is repeated in the Commission's Order dated August 6, 2001, in Case No. 2001-104, *Appendix A, Operations and Financial, No. 1*. The Commission originally required LG&E and KU to file the statements in its Order in Case No. 97-300. LG&E is to file these statements on an Electric and Gas operations basis; KU is to file these statements on a Kentucky Jurisdictional and Other Jurisdictional operations basis. Statements for the quarter ending December 31, 2003 ("the December

February 9, 2004

Mr. Thomas Dorman, Executive Director
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Page Two

the Rate Cases is due February 17, 2004, and many of the same personnel addressing this discovery also prepare and audit the December Statements. LG&E and KU commit to filing the December Statements no later than February 27, 2004.

Finally, as part of the initial review to prepare the December Statements, KU discovered an inadvertent error in its Quarterly Jurisdictional Statements for the Twelve-Months Ending September 30, 2003 ("the September Statements"). KU originally filed the September Statements on November 14, 2003. Accordingly, herewith KU files corrected September Statements.

Please confirm your receipt of this filing by placing the stamp of your Office with date received on the extra copy and returning to me in the enclosed envelope.

Should you have any questions about these matters please contact me at 502-627-4110, or contact Roger Hickman at 502-627-4031.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "John Wolfram".

John Wolfram
Manager, Regulatory Policy and Strategy

Enclosures

Cc: William F. Feldman, KPSC Filings Division
Joyce Spear, KPSC Filings Division
Richard Raff, KPSC Division of General Counsel

**POWERGEN, PLC, LG&E ENERGY, LOUISVILLE GAS & ELECTRIC
COMPANY, AND KENTUCKY UTILITIES COMPANY**

CASE NO. 2000-095

Response to Summary of Findings, No. 12

“The Applicants should file semi-annually a report detailing the adoption and implementation of best practices at LG&E and KU. The report should be filed 45 days after the close of the reporting period.”

The Companies’ Value Delivery Team Best Practice Progress Report for February 2004 follows.

Any review or discussion of these reports should consider two important parameters. **First**, cost-to-achieve amounts were updated following the August 14, 2001 filing to reflect the numbers, as of December 31, 2001, for those individuals electing early retirement, for those persons selecting the severance package, and for those positions to be back-filled. **Second**, savings are cumulative and on-going from Year 3.

**POWERGEN PLC, LG&E ENERGY, LOUISVILLE GAS & ELECTRIC
COMPANY, AND KENTUCKY UTILITIES COMPANY**

CASE NO. 2000-095

Value Delivery Team Best Practice Progress Report

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Distribution Value Delivery Team Best Practice Progress Report – February 2004

Value delivery process	<p>The distribution Value Delivery Team (VDT) consisted of 5 core team members and many other subject matter experts from the distribution business were consulted during the process to help arrive at the team's recommendations. Anderson Consulting, (now Accenture), assisted the team and provided support in gathering benchmarking data and industry information.</p> <p>The value delivery process began by defining the attributes of a world class distribution operation company. Benchmarking data was collected from companies considered as top performers in the industry. A total of 19 different companies were examined for best practices. On-site visits were made to 4 companies and 15 other companies were surveyed. The 4 companies visited included: ERZ and Iberdrola located in Spain, East Midlands Electric located in the UK, and Cinergy.</p> <p>The benchmarking efforts and information gathered from on-site visits revealed that no one company excelled at all of the key attributes needed to meet the vision identified for world class performance but rather the companies excelled at one or more attribute. Lessons learned from this exercise were used to develop the strategies for LG&E/KU to reach world class status.</p>
Vision	<ul style="list-style-type: none"> ▪ Maintain or improve top quartile levels of reliability ▪ Maintain or improve award winning levels of customer satisfaction ▪ Maintain or improve world class levels of safety ▪ Establish world best practice levels of cost efficiency – Total Cost \$/Customer ▪ Continue to promote a culture that results in committed employees with a commercial mindset
Describe at a high level the world best practice identified	<p>Best practices identified through benchmarking and visits to other top performing companies include:</p> <ul style="list-style-type: none"> → Asset management /service provision emphasis → Focus on core processes <ul style="list-style-type: none"> ▪ Enhance the network ▪ Repair the network ▪ Operate and maintain network ▪ Connect new customers → High availability and accuracy of information → Integrated IT infrastructure

Distribution Value Delivery Team Best Practice Progress Report – February 2004

<p>Describe how adoption of world best practice results in proposed cost savings</p>	<p>Cost savings can be achieved by adopting world best practices that better utilize resources and are supported by process and technology improvements. Initiatives identified during VDT process and listed below are interrelated in that they promote a shift from fixed to variable cost, improved business process cycle-times and efficiencies, and they empower the workforce to provide high quality service to the customers at lower cost:</p> <ul style="list-style-type: none"> → Move from fixed to variable workforce. Increased use of contract resources enables optimization of internal resources with increased focus on core activities such as storm restoration and network operations. → Outsourcing of non-core work activities → Consistent planning methodologies for work definition and execution → Asset management approach to managing the business → Integration of technology into the core processes to improve performance: <ul style="list-style-type: none"> ▪ Use of 'best in class' work management and outage management technology systems ▪ Improved investment and life-cycle planning models ▪ Improved system performance modeling tools ▪ Common data bases and improved accessibility and integrity of data used for business decisions
<p>Describe how current performance standards will be improved by adopting best practice</p>	<p>Current operational performance measures will be improved through:</p> <ul style="list-style-type: none"> → Asset management initiatives: <ul style="list-style-type: none"> ▪ Standardization of design and construction, material, operating, and maintenance standards ▪ Incorporation of Reliability Centered Maintenance Principles (RCM) into maintenance practices ▪ Investment planning linked to lifecycle optimization of assets → Improved resource planning, scheduling, and dispatching technologies that will improve: <ul style="list-style-type: none"> ▪ Resource utilization ▪ Response to customer service requests ▪ Operating costs → Shift from fixed to variable costs through increased use of contractor resources has provided additional flexibility for matching resources to resource requirements

Distribution Value Delivery Team Best Practice Progress Report – February 2004

<p>Describe how current performance standards will be maintained during the transition to world best practice</p>	<p>Current baseline for the distribution business is one that is already in the first quartile in the areas of reliability and safety in the US utility industry. The key to success during the transition period will be directly related to our ability to effectively communicate with our employees of the pending changes and new expectations. The following initiatives will help ensure that performance standards are maintained during the transition:</p> <ul style="list-style-type: none"> → As a result of the “One Utility” initiative implemented during the 2nd quarter of 2000 both LG&E and KU are now operated as one utility with resources shared between the two companies as needed for storm restoration, major projects, etc. → Implementation of new IT systems such as a common integrated work management system and a common outage management systems will enhance ability to optimize resources across LG&E and KU → SAIDI and SAIFI operational performance measures will be monitored on an on-going basis to ensure that service levels are maintained during the transition period. Targets are based on maintaining LG&E's and KU's performance in the top quartile for distribution companies → Work force downsizing plans includes provisions to retain critical personnel in their current roles for up to one year → Increased use of contract resources will ensure that adequate resources are available to maintain reliability and customer service levels
<p>Implementation Program People</p>	<ul style="list-style-type: none"> → Move from a fixed to a variable workforce. <ul style="list-style-type: none"> ▪ The staff reduction program was completed December 2001. ▪ Contractor resources are in place and are supported by a program for the development of contractors with the ability to undertake our work. ▪ Contractor partnerships have been developed and strengthened. ▪ Three contractor summit meetings have been held with contractors performing work for Distribution Operations to emphasize LG&E's commitment to safety and expectations of contractors. ▪ Minimum standards for contract management have been implemented. ▪ Contractor management training has been provided to supervisors, managers, and inspectors. ▪ A safety passport system has been implemented for contractors which involves a safety certification process for contractor employees. All the major utility contractors

Distribution Value Delivery Team Best Practice Progress Report – February 2004

People (continued from previous page)

- Outsourcing of non-core work activities
 - Material logistics – Electric material handling and warehousing has been outsourced for the Louisville service territory through implementation of a direct ship initiative. LG&E's strategic electric material sourcing partner delivers materials overnight sorted by crew /truck.
 - Substation maintenance –Contractors are used to perform maintenance work in electric substations subsidizing the internal work force.
 - Fleet – Fleet maintenance has been outsourced.
 - Street lighting – Installation, maintenance, and repair of streetlights in Louisville service territory has been outsourced.
 - Transformer repairs – Contractors are being utilized to perform repair of distribution transformers supplementing internal resources performing this work.
 - Records management – Decision was made to use LG&E employees to perform records management, which costs less than using contractors.
- Training and development
 - Optimization of internal resources. The development of an empowered workforce focused on core activities such as storm restoration and network operations.
 - Leadership development program has been developed and implemented to provide quality leadership training for high potential employees.
 - Training program for new line technicians, based on KU and LG&E best practices, has been designed and implemented
 - Core team training has been conducted for the new work management system and design tool. Training will continue and will be performed on an as needed basis.
 - Development plans have been created for all employees.
- Devolution and profit centers
 - Fleet, Real Estate & Right of Way, and Human Resources departments have been devolved and responsibility for these functions resides within the Distribution Operations business unit.
 - Transfer pricing process – cost and revenue desegregation have been studied to determine if appropriate assignment that properly matches value creation and profit center

Distribution Value Delivery Team Best Practice Progress Report – February 2004

<p>Process (continued from previous page)</p>	<ul style="list-style-type: none">→ Implemented an asset management/service provision business model. Asset management organization has been formed. Key objectives include:<ul style="list-style-type: none">▪ Life cycle optimization of Distribution Operation's assets▪ Standardize, design, construction, materials, operating, and maintenance standards▪ Improve asset data needed for business decisions▪ Optimize O&M and Capital expenditures→ Investment Strategy – An investment optimization model and planning process have been developed and implemented→ Asset Information – Data clean-up is in progress to enable the implementation of a common GIS database for LG&E and KU records.→ Standardization – Development of uniform standards is in progress.
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Distribution Value Delivery Team Best Practice Progress Report – February 2004

Technology	<ul style="list-style-type: none">➔ GEMINI program has been designed and approved. A detailed 3-year schedule with milestones has been prepared and resources have been allocated. The deliverables of the GEMINI program will be:<ul style="list-style-type: none">▪ Workforce Management – Implement a common work management system for resource planning and scheduling.▪ Develop integrated GIS (Geographical Information System) and asset repository.▪ Network Operations – improve load fault analysis, standardize operating procedures, integrate dispatching control centers, and develop integrated outage management system.▪ Customer Management – Improve customer communication with regard to restoration.▪ GEMINI project team is working on configuration of new IT systems.➔ Rollout of new work management system is complete.➔ Data migration of KU geographic information system (GIS) data to the common GIS data model was completed in 4th quarter of 02.➔ Training for new business processes and new IT technology associated with rollout of new work management system was completed in 4th quarter of 02.➔ Deployment planning and data translation for new outage management system are in progress.➔ Data conversion of LG&E geographic information system data to the new GIS data model is in progress.												
Savings Program	<table><tr><td></td><td><u>2001</u></td><td><u>2002</u></td><td><u>2003</u></td></tr><tr><td>Expenses (\$m)</td><td>4.7</td><td>14.4</td><td>17.6</td></tr><tr><td>Capital (\$m)</td><td>2.9</td><td>10</td><td>13</td></tr></table>		<u>2001</u>	<u>2002</u>	<u>2003</u>	Expenses (\$m)	4.7	14.4	17.6	Capital (\$m)	2.9	10	13
	<u>2001</u>	<u>2002</u>	<u>2003</u>										
Expenses (\$m)	4.7	14.4	17.6										
Capital (\$m)	2.9	10	13										
Cost to Achieve	<table><tr><td>Expenses (\$m)</td><td>103.5</td></tr><tr><td>Capital (\$m)</td><td>35.05</td></tr></table>	Expenses (\$m)	103.5	Capital (\$m)	35.05								
Expenses (\$m)	103.5												
Capital (\$m)	35.05												

Transmission Value Delivery Team Best Practice Progress Report – February 2004

Value delivery process	<ul style="list-style-type: none"> ▪ The Transmission Value Delivery Team was composed of the Director Transmission of LG&E/KU and a representative of PowerGen. ▪ The managers in the Transmission area of LG&E/KU as well as personnel from the Distribution area of LG&E and KU were used as additional resources. ▪ The team visited Cinergy in the US and East Midlands Electricity and the National Grid Operations Center in the UK. The team also used a peer group of 12 US companies as benchmarks for transmission expense. ▪ An external consultant was utilized to assess the impact of participating in the Midwest ISO.
Describe at a high level the world best practice identified	<ul style="list-style-type: none"> ▪ Use of an Asset Manager/Service Provider structure. ▪ Use of a Reliability Centered Maintenance process for transmission substation and line maintenance.
Describe how adoption of world best practice results in proposed cost savings	<ul style="list-style-type: none"> ▪ Based on benchmarking with the peer group, LG&E/KU Transmission was very close to best in class for transmission costs. ▪ Increased use of the Asset Manager structure will allow provision of maintenance and construction services at even lower cost. ▪ Use of Reliability Centered Maintenance will ensure that maintenance activities are more efficient in achieving the desired level of reliability.
Describe how current performance standards will be improved by adopting best practice	<ul style="list-style-type: none"> ▪ Use of the Asset Management structure and Reliability Centered Maintenance will allow better leveraging of existing personnel and financial resources to maintain high transmission reliability.
Describe how current performance standards will be maintained during the transition to world best practice	<ul style="list-style-type: none"> ▪ The Transmission Business is establishing more comprehensive measures of transmission system performance to monitor the effect of the new processes and practices, providing an early warning of any problems during the transition.

Transmission Value Delivery Team Best Practice Progress Report – February 2004

Implementation Program: Rationalize Operations Center	<ul style="list-style-type: none">Both operation centers have been modified such that either can operate in the place of the other – Complete												
Asset Management	<ul style="list-style-type: none">Specific organization developed around Asset Management model.GIS data – work with Distribution to move data into electronic format as part of GEMINI project – Initiative has been delayed pending outcomes of Transmission Business Strategy AnalysisInvestment analysis process – CompleteReliability Centered Maintenance - The development of RCM is progressing – Complete												
Service Level Agreements	<p>Evaluating contract options for substation maintenance and vegetation and right of ways to supplement existing contracts – complete</p> <p>New contracts and process changes in place to complement vegetation and right of way work processes - Complete</p>												
Savings Program	<table><tr><td></td><td><u>2001</u></td><td><u>2002</u></td><td><u>2003</u></td></tr><tr><td>Expenses (\$m)</td><td>0</td><td>0.5</td><td>0.8</td></tr><tr><td>Capital (\$m)</td><td>0</td><td>0</td><td>1.1</td></tr></table>		<u>2001</u>	<u>2002</u>	<u>2003</u>	Expenses (\$m)	0	0.5	0.8	Capital (\$m)	0	0	1.1
	<u>2001</u>	<u>2002</u>	<u>2003</u>										
Expenses (\$m)	0	0.5	0.8										
Capital (\$m)	0	0	1.1										
Cost to Achieve	\$0												

Power Generation Value Delivery Team Best Practice Progress Report- February 2004

Value delivery process	<ul style="list-style-type: none"> ▪ The VDT was comprised of a team sponsor and four full-time team members ▪ All plant managers participated in developing plant-specific five-year business plans ▪ Interaction between other VDTs and work groups was instrumental in developing the respective business plans <ul style="list-style-type: none"> – Procurement (e-procurement) and Supply Chain – I/T VDT – Support Services VDT – Power Marketing VDT – Engineering VDT ▪ Three Powergen generating facilities in the UK were visited ▪ Used benchmarks developed in One-Utility project <ul style="list-style-type: none"> – These benchmarks based on like-configured panel of US plants and were based on UDI data ▪ Accenture (Andersen Consulting) was used during the One-Utility initiative to validate benchmarks
Vision	<ul style="list-style-type: none"> ▪ To set out a strategy for building a world class generation business based on one plant portfolio operating with high standards of plant reliability, thermal efficiency, and safety. ▪ Create the momentum to change ▪ Using best practice benchmarks for non-fuel operating costs \$/MWh establish the size of the performance improvement opportunity ▪ Establish stretching business performance goals and targets ▪ Scope out and develop a program for each power station of performance improvement initiatives based on best practice
Describe at a high level the world best practice identified	<ul style="list-style-type: none"> ▪ Best Practice for a Generation Utility is that the whole portfolio is brought to the same Best Practice Standard. Characteristics of plants that perform at world's best practice tend to: <ul style="list-style-type: none"> – Set/develop goals (short and long-term) and plans which are clear and easily understood – Achieve high standards of safety and good housekeeping – Use benchmarking for strategic feedback – Work together for the good of the whole

Power Generation Value Delivery Team Best Practice Progress Report- February 2004

<p>Describe how adoption of world best practice results in proposed cost savings while still maintaining/improving current performance standards</p>	<p>People:</p> <ul style="list-style-type: none"> ▪ Move from a fixed to a variable work force. Strategic outsourcing. ▪ Develop core work force in terms of skill and flexibility. ▪ Devolution of support services, (Procurement & Warehousing) to the business unit to bring focus and accountability. ▪ Introduce business plan and profit center concept to provide clear focus on objectives. <p>Process:</p> <ul style="list-style-type: none"> ▪ Engineering risk/cost balance analysis <ul style="list-style-type: none"> – Risk and condition based maintenance – Supported by specialists/less reliance on OEM ▪ Repair not replace when appropriate <ul style="list-style-type: none"> – Achieved with the high quality technical support ▪ Reduce high cost OEM dependence <ul style="list-style-type: none"> – Engineering policy and guidance framework – Development of credible alternatives with the support of Power Technology <p>Technology:</p> <ul style="list-style-type: none"> ▪ Plant Status Review based on modern condition monitoring processes to ensure long-term performance and reliability of plants. ▪ Use of Power Technology resources to aid in managing engineering risk within the plants. ▪ Engineering policy and guidance framework.
<p>Describe how current performance standards will be maintained during the transition to world best practice</p>	<ul style="list-style-type: none"> ▪ The Plant Status Review will ensure that long-term performance and reliability of the plants will not be sacrificed for short-term profitability. ▪ Use of Power Technology resources to aid in managing engineering risk within the plants. ▪ A regular comparison of individual Station performance to their respective national panel benchmarks for cost, reliability and other key performance indicators to measure progress. ▪ High quality staff recruitment ▪ Extensive training program to provide highly qualified employees in a short time period

Power Generation Value Delivery Team Best Practice Progress Report- February 2004

<p>Implementation Program:</p>	<p>People:</p> <ul style="list-style-type: none"> ▪ Move from a fixed to a variable work force. Strategic outsourcing – complete ▪ Develop core work force in terms of skill and flexibility – in progress, ongoing until 2003. Use of skills training programs continue. Consider complete for reporting purposes. ▪ Devolution of support services, (Finance, HR, Procurement) to the business unit to bring focus and accountability – complete including warehousing at all appropriate locations. ▪ Introduce business plan and profit center concept to provide clear focus on objectives – complete, apart from transfer pricing concept which has been eliminated from consideration. <p>Process:</p> <ul style="list-style-type: none"> ▪ Engineering risk/cost balance analysis – complete <ul style="list-style-type: none"> – Risk and condition based maintenance – Supported by specialists/less reliance on OEM ▪ Repair not replace when appropriate – support services in place; completed for reporting purposes. <ul style="list-style-type: none"> – Achieved with the high quality technical support ▪ Reduce high cost OEM dependence – on-going and considered complete for reporting purposes <ul style="list-style-type: none"> – Engineering policy and guidance framework – Development of credible alternatives with the support of Power Technology – complete with on-going access to Power Technology and other affiliate company resources. <p>Technology:</p> <ul style="list-style-type: none"> ▪ Plant Status Review based on modern condition monitoring processes to ensure long-term performance and reliability of plants – implementation process completed. ▪ The use of Power Technology resources to aid in managing engineering risk within the plants – on-going and considered complete for reporting purposes . ▪ Engineering policy and guidance framework – additional revisions in progress; this process is a living document to address engineering needs as they develop. Complete for reporting purposes.
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Retail Value Delivery Team Best Practice Progress Report – February 2004

Value delivery process	<ul style="list-style-type: none"> • The Retail Team consisted of six people from LG&E and one from Powergen • Significant benchmarking occurred, with site visits to Powergen Retail in the U.K., GE (Norfolk VA call center and the GE answer center in Louisville, KY) Duke Power in Charlotte, NC. In addition, benchmarking information was utilized from: <ul style="list-style-type: none"> – EEI/AGA benchmark database review – J.D. Power review (s) – PH&B customer service best practice review – Saber Sales & Marketing best practice review – Arthur Andersen Best Practice – Andersen Consulting Benchmark Data sharing – Marketing Leadership Council (Best Practices in Organisation Design) – External consultants utilized included: – Xenergy (Conducted an analysis of Retail Market Opportunities) – Paul O'Rourke – PH&B (Retail Strategy follow-up)
Vision	<ul style="list-style-type: none"> • To achieve a high level of business efficiency while maintaining excellent customer service standards
Describe at a high level the world best practices identified	<ul style="list-style-type: none"> • Customer Relationship Management (CRM) processes and technology to provide a single view of the customer using multiple sales and service channels (including e-enabled business). • Virtual Call Centers to maximize the value of more than one call center. • Provide more customer self-service options (e-enabled, enhanced IVRU) that provide high levels of service at lower costs. • Strong focus on customer service and continuous improvement. • Provision of customer services in the most efficient manner. • Activity Based Cost Management. Understanding of operating cost structure plus identification of areas of improvement.

<p>Describe how adoption of world best practice results in proposed cost savings</p>	<ul style="list-style-type: none"> Investment in a new CRM system, which will provide for the development of a common customer centric front end for existing legacy based information systems. This will provide for identical systems at call centers, much-reduced operator training requirements, and faster customer process times. The virtual call center – provision of a switch to enable calls to be taken at either center – maximizing the value of the CRM system and improving response times to emergencies. Evaluate the overall value of the business offices and the local pay agents, while maintaining or exceeding our traditional standards of customer service. The CRM system is important in this process.
<p>Describe how current performance standards will be improved by adopting best practice</p>	<ul style="list-style-type: none"> The CRM system will provide faster response and better service to customers. The introduction of a common bill format will provide a statement that is easier for customers to understand with an online image for customer services representatives when dealing with queries. The bill was modeled on other leading bill providers identified by J. D. Power. The virtual call center will provide more customer service representatives in times of system outage. Provision of customer self-service options to enable customers to receive many services without needing to speak to a customer service representative.
<p>Describe how current performance standards will be maintained during the transition to world best practice</p>	<p>During the transitional period the residential call center operation will continue to add and train staff to support the existing systems.</p>
<p>Implementation Program</p> <p>Full Migration to a Process Based Organisation:</p>	<p>All customer interface is now centralized within one area of our company (The Retail Business Unit). This centralization provides focus, responsibility, and accountability for customer service and satisfaction. The area contains all of the revenue collection activities (meter reading, field services, billing, and remittance), marketing, sales, and account management call center(s).</p>
<p>Technology and Process Change Implementation:</p>	<p>Retail will continue to utilize technology and process change to improve services and services options offered to our customers. Some major initiatives include:</p>

	<p>IVRU continues to enable customers to handle many service issues by telephone without needing to speak with a customer service representative. Our emergency operations continue to be supported by a high volume call overflow provider (21st Century) which allows every emergency call to be answered, versus customers receiving a busy signal due to the call volume increase associated with outages.</p> <ul style="list-style-type: none"> • Training — Training has increased to ensure our customer service representatives focus on customer satisfaction skills and how to effectively address the customers' concerns on the 1st call. A compensation structure has been introduced for customer service representatives that rewards superior performance. We have purchased Knowlagent software which has provided an on line help tool to customer service representatives. Additionally, we have purchased a call monitoring package which has greatly enhanced our quality control process. • Third Party Pay Stations — We have a number of locations and areas served through a new contract with APS. • New Bill — The revised easy to read common format bill is now complete. The common format reduces training requirements for customer service representatives and provides the representatives with an on-line image of the customers bill (historically the representative had to interpret what the customer was telling them on the phone because they could not see a copy of customer's actual bill). Additionally, individual messaging capabilities are available to reduce customer service calls by providing customer specific information to individual customers. The bill was modeled after other leading bill providers identified by JD Power. • Web enabled customer service — Customers have access to both view and pay their bill on the Internet. Currently, business customers have the ability to request service via the web. These customer self-service features reduce calls to the call centers, and provide an additional service channel. ▪ Credit Counselor Position — We have created a position to work specifically our Customer Service Representatives to help with fuel poor customers and their advocate groups.
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Customer Relationship Management	The new CRM system was put into service on a pilot basis in August 2002. Testing went well, and full roll out was implemented in October with ongoing training continuing through 2003.			
Savings Program		2001	2002	2003
	Expenses (\$m)	0	1.5	1.8
	Capital (\$m)	0	0	0
Cost to Achieve	Expenses (\$m)	9.6		
	Capital (\$m)	6		

Metering Value Delivery Team Best Practice Progress Report – February 2004

Value delivery process	<ul style="list-style-type: none"> • The Metering Value Delivery Team consisted of four members representing the areas of Meter Operations, Meter Reading, IT, and Powergen. • The process used to arrive at final recommendations included the review of all current metering process, determining regulatory and competitive issues, detailing budgets, benchmarking comparisons, identifying technology opportunities and IT requirements, potential areas of cost reduction, and cost benefit analysis. • The Metering VDT consulted and met with numerous individuals representing many functional departments as well as other Value Delivery Teams such as the IT, Distribution, Retail and E-commerce. • The Metering VDT visited East Midlands Electricity to acquire an understanding and knowledge of a metering business in a fully competitive environment. Two members of the Metering Team visited Salt River Project to see first hand how they developed and implemented their pay-as-you-go meter system.
Vision	<ul style="list-style-type: none"> ▪ Deliver the essential services of metering in an accurate and timely manner at the lowest possible cost while maintaining customer loyalty.
Describe at a high level the world best practice identified	<ul style="list-style-type: none"> • Integrated Metering Business • Transfer Industrial and Commercial meters into regular meter routes • Meter reading route optimization • Pay-as-you-go meters option • Flexible workforce • Selective AMR application for Industrial and Commercial accounts • Statistical electrical meter sampling • Increased estimated readings

Metering Value Delivery Team Best Practice Progress Report – February 2004

Describe how current performance standards will be improved by adopting best practice	<ul style="list-style-type: none"> • Management focus • Improved asset management • Test sampling volumes decrease • Route optimization for meter reading
Describe how current performance standards will be maintained during the transition to world best practice	<ul style="list-style-type: none"> • We will continue to measure and track current performance • Most standards are being enhanced not created • Incentives for quality customer service
Implementation Program	
Meter Business Integration	Complete.
Transferring Industrial and Commercial meters into regular meter routes	All I/C District 25 routes have been transferred from the Meter Shop to the Meter Reading Department.
Meter reading route optimization	LG&E's internal employees have completed a review and changed all routes within the 0 read cycles to make them more efficient. Additionally, cycle read windows have been expanded to increase efficiency and reduce cost.
Hand-held meter reading devices	Three hand held installations have been implemented at KU.
Pay-as-you-go meter option	There are approximately 350-400 customers participating in the program. Interveners have challenged the program through the Franklin Circuit Court.
Flexible workforce	Outsourcing initiative complete.
Selective AMR application for I/C accounts	Business case has been completed and submitted for review and approval however, additional analysis resulted in a decision not to pursue this initiative at this time.
Increased estimated readings	Study completed by PA Consultant and resulted in 85% accuracy. No need to modify further. A detailed review of PSC Regulations and our tariffs indicate that planned estimation of meter readings is not an option at this time.
Statistical electric meter	Complete

Metering Value Delivery Team Best Practice Progress Report – February 2004

	Capital (\$m)	3.1
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**Marketing, Risk Management & Development Value Delivery Team Best Practice
Progress Report – February 2004**

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Value delivery process	<ul style="list-style-type: none"> • The team consisted of five professionals - four from LG&E, one from Powergen. • Other LG&E and Powergen resources were utilized where appropriate. • In addition to internal resources, the VDT employed Price Waterhouse Coopers and Navigant Consulting to assist with development of best practice policies and procedures.
Vision	<ul style="list-style-type: none"> ▪ Marketing, Risk Management, and Development acting as the commercial hub for our integrated electricity and gas business will deliver maximum value through optimization of existing assets and further development for a platform of growth of the integrated business.
Describe at a high level the world best practice identified	<p>The best practice MRMD organization acts as the commercial hub for the energy commodity business. As such, the MRMD organization aggregates commodity exposures from various parts of the business, provides centralized portfolio level valuation and decision-making, and seeks to embed risk management principles throughout the value creation process.</p> <p>Additionally, the necessary governance of trading activity must be clearly understood, well documented, and includes independent oversight of authorities. Trading systems must include the necessary analytic tools to support a full range of risk measurement and reporting tools.</p>
Describe how adoption of world best practice results in cost savings/ improved performance standards.	<ul style="list-style-type: none"> ▪ The creation of a commercial hub serves to coordinate market actions involved in the business and centralized management of the various risks inherent in the integrated energy business. This will involve improvements to asset optimization, systems functionality, analytics, and risk management policies. There were no proposed cost savings. ▪ The risk management framework has been restructured to provide improved communication of business risks. ▪ Risk coordination group conducts a monthly review of business risks in each of the functional areas.
Describe how current performance standards will	<p>There are no planned resource reductions in Energy Marketing, therefore current performance will not be negatively impacted</p>

**Marketing, Risk Management & Development Value Delivery Team Best Practice
Progress Report – February 2004**

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<p>Implementation Program: Development of the Commercial Hub</p>	<p>The various constituents of commercial hub have been established over the last 12 to 18 months with defined responsibilities for an integrated approach towards value maximization. While fully operational now, the Commercial Hub is also continuously evolving to keep pace with the changes in market structure and fundamentals.</p> <ul style="list-style-type: none"> ▪ Operations Analysis group assists with performance reports, business forecasting, and systems development. ▪ Market Analysis and Valuation group takes a pro-active risk management role using core strengths in retail load forecasting, transaction valuation, and capital decision analysis. ▪ Transmission Analysis tracks FERC-induced structural changes in the industry, represents company's position in different forums such as MISO, and disseminates RTO information throughout the company. ▪ Trading Operations group creates value within recommended risk management framework. ▪ Retail marketing support activities are better coordinated to enhance decision-making and customer service. <p>All VDT best Practice improvements are now complete.</p>
<p>Risk Management</p>	<ul style="list-style-type: none"> ▪ Risk Management framework is fully implemented
<p>Savings Program</p>	<p>Zero savings – all savings are projected in other value delivery areas.</p>

Engineering Value Delivery Team Best Practice Progress Report – February 2004

Value delivery process	The Value Delivery Team consisted of six members: three LG&E and three Powergen employees. The team held discussions with Power Generation, Electrical Distribution, Gas Distribution, Electric Transmission, Rates and Regulatory, and Environmental. In addition to reviewing the current practices of LG&E and Powergen, a review with several other corporations' activities in relevant areas was conducted. Discussions were held with Shell Expro UK in the area of engineering policies.
Vision	The Engineering Value Delivery Team charter was to deliver a vision and recommendations covering engineering policy, engineering services, and research and development. In addition a review of Generation assets and a review of Project Development and Management was included.
Describe at a high level the world best practice identified	<p>In the area of engineering policy it was identified that the best practice for managing key engineering risks requires the implication of engineering policy/minimum standards supported by a structured review of assets (Plant Status Review, PSR).</p> <p>The purpose of the PSR is to establish key risks, fitness for purpose, and generic technical issues for each key asset.</p> <p>The development of processes to share experience and specialist skills between LG&E and Powergen supports world best practice.</p> <p>For research and development the alignment of R&D programs with key strategic initiatives of the corporation and leveraging the group R&D activities were identified as key goals to achieving best practice.</p>
Describe how adoption of world best practice results in proposed cost savings	<p>Various examples were discovered to support benefits of the recommendations in the engineering policy and engineering service areas. No specific dollar value was associated with these benefits as they are expected to be produced across the corporation through the improved management of engineering risks.</p> <p>Leveraging group R&D activities will allow a broader scope of R&D activity and potential cost savings opportunities.</p>

Engineering Value Delivery Team Best Practice Progress Report – February 2004

<p>Describe how current performance standards will be maintained/improved by adopting best practice</p>	<p>The implementation of engineering policies throughout LG&E will be conducted in a phased approach in order to ensure a smooth transition avoiding any disruption in-group performance.</p> <p>Likewise, a structured approach to implementing the Plant Status Review process will be followed. Once in place, various performance improvements will result from enhanced management of engineering risks. The recommendations in the areas of engineering services will serve to enhance the current engineering services provision and support the goals of other value delivery teams.</p> <p>Work in the research and development area will provide a broader program and help identify emerging technical risks and opportunities.</p>
<p>Implementation Program: Engineering Policy</p>	<p>The review of applicability by Power Technology of Minimum standards at Cane Run power station was complete in 2002. Based on the review at Cane Run the US Business is currently evaluating the adoption of the minimum standards across the remaining organization. Evaluation of the applicable minimum standards and other key engineering risks has been built into existing business planning as a living process. On-going and considered complete for reporting purposes.</p> <p>The first Plant Status Review process for LG&E, was initiated in 4th quarter, 2001, with reports to be published in 1st quarter 2002. The second Plant Status Review process will be initiated in Jan 2003 with reports to be published by mid 2003. The Plant Status review process has been adopted as a part of the annual business planning process – on-going and considered completed for reporting purposes.</p>
<p>Form Engineering Services Group</p>	<p>A team of specialist engineers has been formed to provide the specialist services and support the Plant Status Review process. Complete – on-going access to Power Technology and other affiliate company engineering resources established.</p>
<p>Research and Development</p>	<ul style="list-style-type: none"> ▪ Extend Technology Planning Process to LG&E – Complete. ▪ Establish a single EPRI membership – Complete.

Information Technology (IT) Value Delivery Team Best Practice Progress Report – February 2004

Value delivery process	<ul style="list-style-type: none"> • The team was composed of four LG&E employees and two employees of Powergen. The team was selected based on their experience in IT core competencies of development, operations, research, and strategic planning. • To benchmark best practice for internal delivery of IT services, the IT VDT visited the headquarters of Oracle Corporation. The team also had extensive discussions with representatives of CISCO Systems. These organizations were identified as “best practice” case studies. • LG&E and Powergen both participated in IT Benchmarking study organized by American Gas Association and Edison Electric Institute. Technology advancements were discussed with Meta and GIGA. Mason Communications LTD was utilized for a Telecommunications Assets Review.
Vision	<ul style="list-style-type: none"> ▪ Delivery of world class IT in LG&E ▪ Align IT value delivery plans and objectives with plans generated by other value delivery teams ▪ Develop an IT governance process ▪ Explore opportunities for shared experience
Describe at a high level the world best practice identified	<p>IT best practice involves standardization of business processes supported by systems delivered across the internet. The Internet becomes the core of LG&E’s technical architecture. Deployed systems are accessible using any internet device. By leveraging this infrastructure, LG&E can focus on core competencies, outsource non-core services, and plug in or take out service providers as it makes business sense. The IT VDT also recommended that the corporation continue to invest in “self-service” applications since Oracle and Cisco have successfully reduced operating expenses by promoting a “do it yourself” culture.</p>
Describe how adoption of world best practice results in proposed cost savings	<p>Cost savings will be achieved through standardization and simplification. Immediate benefits are expected through elimination of duplicate systems. Product support costs will be reduced through a standard of WEB-based technology and an</p>

Information Technology (IT) Value Delivery Team Best Practice Progress Report – February 2004

Describe how current performance standards will be improved by adopting best practice	Current performance standards will be improved through adoption of standard technologies that support the company's goals for operational excellence. The delivery of new products will also be improved with WEB-based technology. The "time to market" will be decreased and common user interfaces will lessen training requirements. The proposed architecture will support a mobile work force and enable employees to access applications via the Internet.
Describe how current performance standards will be maintained during the transition to world best practice	A new Service Provider model will help insure that performance standards are maintained during the transition. Service level agreements will be implemented that establish proposed costs and target service levels. Business representatives and IT will partner to develop and monitor service levels and establish procedures for corrective action if service levels are not met.
Implementation Program: Develop IT Department as service provider	Training and consulting classes have been completed for the entire IT department. Service level agreements have been established with the business units.
IT Governance	An Investment Committee has been established. IT investments are reviewed and approved by the Investment Committee.
Telecommunications <i>Strategy</i>	A Telecommunications Market Assessment study was conducted in early 2002 by the Joyce Telecom Group. The study provided the current telecom market conditions within the LG&E service territory. Management considered the recommendations and took appropriate action.
Redundancy	A number of systems have been decommissioned during 2001.
Application Service Provision – Mainframe outsourcing	Further work following the VDT process has demonstrated that there is a greater gain with keeping this provision in-house. That benefit has now been demonstrated.
Self Service Applications	Self-service applications for Human Resources have been implemented.

Value delivery process	The Procurement VDT was staffed by five management level and two senior level professional supply chain associates. This team working cross functionally with key members of each of the other VDT's developed current state data for LGE, KU, WKE, and LPI, benchmarked Ford Motor Co, Deere & Company, Frito Lay, and Duke Power. Determined best practices, identified gaps between the current state and best practice, and developed detailed initiatives to improve LG&E Energy's supply chain performance.
Vision	To continue to work towards world class supply chain management.
Describe at a high level the world best practice identified	<p>Six key integrated components divided into two categories were evident in the best supply chains.</p> <p>Leverage Enablers</p> <ul style="list-style-type: none"> • Production focus- Support the productivity of the business units served. • Standardization/rationalization- Having production/construction standards for materials and services that are applied throughout the business. Continual rationalization of the number of standards. • Planning- Advance notices of material demands and service schedules. <p>Functional Strategies</p> <ul style="list-style-type: none"> • Sourcing- Stratification of spends and activities and assignment of strategies for each. i.e.: aggregation, outsourcing, user direct purchase etc. • Logistics & Inventory Management- Direct shipment of goods to job site, Vendor Managed inventories, consignment, inventory optimization through usage models, outsourced logistics. • Electronic Commerce – The use of technologies such as eProcurement, electronic auctions and EDI to improve operational efficiencies and reduce the overall purchase cycle.
Describe how current performance standards will be improved by adopting best practice	The supply chain performance measures will become further aligned with company-wide measurements because of the increased utilization of vendor managed processes. Supply Chain will have a set of core performance measures tied directly to individual companies' strategic and business unit performance, and the demand for energy conditions, e.g. working capital, and overall operating expenses. Increased co-operation between suppliers to establish cost drivers and individual/joint reduction strategies will enable the reduction needed for improved competitive position. The metrics, however, must not become so complex that they are difficult to manage on a corporate level.

Working Capital Reductions	<p>Original July 2000 VDT goals for Transmission/Distribution and Generation working Capital Reductions were as follows:</p> <p>Transmission/Distribution \$5.7 million</p> <p>Generation \$7.9 million</p> <p>Working Capital for Electric Distribution has been reduced approximately \$5.7 million as a result of the following initiatives:</p> <ul style="list-style-type: none"> - Direct Ship of material to the Louisville Op Centers– As a result of electric material being stored and delivered directly to the Louisville Operations Centers, local company owned inventory has been reduced to include primarily emergency spares and storm restoration material. Reduction of \$3.2 million achieved to date. - Consolidation/Rationalization – Several initiatives related to consolidation/rationalization have occurred, resulting in a reduction of \$2.0 million achieved to date, including <ul style="list-style-type: none"> +Wire and cable, which was once ordered by each outlying storeroom directly from the manufacturer, has been consolidated (centrally) at Brownstown Electric. Brownstown Electric purchases the material (from contracts negotiated by LGE/KU), manages the inventory based on LGE/KU usages and delivers the material weekly +Write off of Louisville truck stock. +Establishing an “A” list of items with Brownstown Electric that have a 1-2 week delivery time. Company inventory levels are set and maintained around these improved lead times. +Continuous and on-going “rightsizing” of in-house company inventory is taking place and will take place going forward. “Rightsizing” results from continued material standardization, improved lead times, improved job planning, etc. On-going inventory “rightsizing” at all storeroom locations will be the primary factor in continual inventory reduction and “rightsizing”. <p>Material Standardization – Continued material standardization efforts will positively impact inventory levels as well as lower overall purchasing costs.</p> <ul style="list-style-type: none"> - Obsolescence – The obsolescing and subsequent disposition of inventory is always an option, though has only been moderately exercised. Unless material is deemed completely unusable, it is maintained until the stock is ultimately depleted. Reduction of approximately \$650,000 achieved to date. <p>Transmission and Sub-station Inventory has increased over the period due to increased maintenance requirements and segregation out of the Electric Distribution inventory levels.</p> <p>Generation – The common consumable material previously in the central warehouse has been relocated to the power plants, with an Obsolescence review conducted on the remaining material, resulting</p>
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Devolution into the businesses	Devolution has been completed. Resources directly supporting the Generation Business have been devolved to the respective Generating plants. The Central Supply Chain group consists of Corporate Purchasing, Sourcing Support and Energy Delivery Supply Chain.—Transmission, which is a part of the Generation business, continues to be supported from the central Energy Delivery Supply Chain resources.
Development and implementation of contract minimum standards	Completed. In addition, a number of Distribution-related service agreements are being re-aligned to the post VDT business requirements to include jointly developed performance standards and incentives and shared savings mechanisms. In 2002, 8 of 9 major Distribution service agreements have been renegotiated to include performance management language that includes shared compensation based on a set of performance standards. In 2003, 11 Distribution Operations service providers have been put into the performance management program. In this program, financial risks and rewards have been established based on quality of work, safety and costs. A quarterly performance review is conducted with each major service provider.
Develop and implement supply chain strategy	Items that are consumable across the business will continue to be purchased centrally. Responsibility is devolved for the supply chain in conjunction with the movement of inventory to individual generating stations. Distribution inventory transferred to outsourced provider after rationalization. See working capital comments above. Generation inventory maintained in central warehouse has been relocated to the LG&E power plants. For accounting purposes, the inventory has been segregated by LOB for more accurate tracking and management going forward.
Standardization	Standardization of Distribution components continues to proceed.

Develop an E-Procurement Strategy	<p>LG&E Energy has disconnected access to the Marketsite side of E-Procurement. Supplier “pushback” to full integration and on-going fees kept the number of fully integrated suppliers too low to realize anticipated benefits. In addition, the much anticipated and highly publicized benefits of these electronic Buyer consortiums for the utility industry did not materialize. Catalogue maintenance also proved cumbersome and somewhat costly for LG&E and suppliers. The front end of the E-Procurement system, Buysite, was well received internally and will continue to be used as a more user-friendly and efficient tool for requisitioning materials.</p> <p>Supply Chain continues to make use of the E-Auction tool for both forward and reverse auctions. Some savings have been realized doing reverse auctions and forward auctions have been beneficial in disposing of assets no longer needed. We will continue to use this tool when possible.</p> <p>Direct ordering from vendor websites has been implemented with several vendors, namely MRO Electrical, Office Supplies, and is used for ordering non-stock material.</p>		
Benefits (Cumulative)	<u>Year 1 (\$mm)</u>	<u>Year 2 (\$mm)</u>	<u>Year 3 (\$mm)</u>
Working Capital	\$0.83	\$0.44	\$0
Spend Aggregation (new)	0	0	0.50
e-Procurement	0	0.50	0.73
Devolvement/Efficiencies	1.15	0	0
TOTAL	\$1.98	\$0.94	\$1.23
Cost to Achieve	\$1.77	\$0.45	\$0.45

Shared Services Value Delivery Team Best Practice Progress Report–February 2004

Value delivery process	<p>The Shared Services Value Delivery Process consisted of six teams:</p> <ul style="list-style-type: none"> ▪ Finance ▪ Human Resources ▪ Legal ▪ Communications ▪ Operating Services ▪ Strategy and Planning <p>Each team was comprised of LG&E and Powergen members.</p> <p>Their objective was to investigate best practice, share best practice across US and UK, and to develop action plans to deliver service standards and cost saving targets inline with the good practice benchmarks provided by McKinsey.</p> <p>Best Practice companies were studied, chosen to reflect, known areas of best practice, US-UK organizations use of technology solutions, change management, industry/workforce considerations. The list includes:</p> <table border="0"> <tr> <td>▪ General Electric</td><td>▪ BNA Survey Analysis</td></tr> <tr> <td>▪ UPS</td><td>▪ Best Practices in Corporate Communications</td></tr> <tr> <td>▪ IBM</td><td>▪ Brunswick</td></tr> <tr> <td>▪ Shell Oil</td><td>▪ Reddy Corporation International</td></tr> <tr> <td>▪ Duke Energy</td><td>▪ IABC & Andersen Consultants</td></tr> <tr> <td>▪ Brown & Williamson</td><td></td></tr> <tr> <td>▪ Pacificorp</td><td></td></tr> <tr> <td>▪ Brown-Forman</td><td></td></tr> <tr> <td>▪ Oxford University Press</td><td></td></tr> </table>	▪ General Electric	▪ BNA Survey Analysis	▪ UPS	▪ Best Practices in Corporate Communications	▪ IBM	▪ Brunswick	▪ Shell Oil	▪ Reddy Corporation International	▪ Duke Energy	▪ IABC & Andersen Consultants	▪ Brown & Williamson		▪ Pacificorp		▪ Brown-Forman		▪ Oxford University Press	
▪ General Electric	▪ BNA Survey Analysis																		
▪ UPS	▪ Best Practices in Corporate Communications																		
▪ IBM	▪ Brunswick																		
▪ Shell Oil	▪ Reddy Corporation International																		
▪ Duke Energy	▪ IABC & Andersen Consultants																		
▪ Brown & Williamson																			
▪ Pacificorp																			
▪ Brown-Forman																			
▪ Oxford University Press																			
Vision	To develop best practice processes and systems.																		
Describe how adoption of world best practice results in proposed improvements in savings.	<p><u>Finance</u></p> <ul style="list-style-type: none"> ▪ Work with PriceWaterhouseCoopers to effect organizational and process redesign. 																		

Shared Services Value Delivery Team Best Practice Progress Report–February 2004

Describe how adoption of world best practice results in proposed improvements in savings.

(continued from previous page)

Human Resources

- Organizational and process redesign in accordance with Best Practice recommendations to reflect:
 - ➔ Division of Human Resources (HR) responsibilities between HR and Line of Business (LOB). HR to develop specialist organization to support LOB across all aspects of HR.
- Develop a strong safety culture
- Leverage technology
 - ➔ Productivity to be maintained/enhanced through extensive use of technology
 - ➔ International organization requirement for HR information systems that provide services to geographically distant sites
 - ➔ Growth strategy requirement for development of Human Resources Information Systems (HRIS) that is flexible and scaleable
 - ➔ Outsourcing/low cost delivery opportunities

Legal

- Commercial partnering with clients
 - ➔ Attorney linked to each LOB
 - ➔ Linked to BU performance and legal costs
 - ➔ Educate LOB to optimize legal resources
 - ➔ Organizational restructuring
 - ➔ In line with best practice recommendations
- Outside counsel initiatives
 - ➔ Litigation resolution and management
 - ➔ Legal procurement and management
- Legal Risk Management
 - ➔ Detect problem business practices
 - ➔ Allocate resources to reduce risk
 - ➔ Educate clients regarding legal changes, etc.

Shared Services Value Delivery Team Best Practice Progress Report–February 2004

<p>Describe how adoption of world best practice results in proposed improvements in savings. (continued from previous page)</p>	<p><u>Operating Services</u></p> <ul style="list-style-type: none"> ▪ Reorganization to effect organizational and process redesign ▪ Office space reduction ▪ Contract improvements ▪ Devolution to Line of Business <p><u>Communications</u></p> <ul style="list-style-type: none"> ▪ Best Practice learned <ul style="list-style-type: none"> → Products and services focus → Organizational design → Central cost center ▪ Strategies: <ul style="list-style-type: none"> → Introduce Agency Hybrid concept <ul style="list-style-type: none"> – Work with Line of Business, but retain specific area of specialty → Cost center alignment <ul style="list-style-type: none"> – Aligned with benchmarks – Brings cost focus for customers → Team Alignment <ul style="list-style-type: none"> – US/UK organization link – Strategic direction and company messages <p><u>Strategy and Planning</u></p> <ul style="list-style-type: none"> ▪ Develop US operations strategy ▪ Improve business planning process ▪ Refine scope and organization to achieve best practice benchmarks
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Shared Services Value Delivery Team Best Practice Progress Report–February 2004

<p>Progress:</p>	<p><u>Finance</u></p> <ul style="list-style-type: none"> ▪ As previously reported, restructuring is already completed ▪ Process improvements continue and are on going. <p><u>Human Resources</u></p> <p>Accomplishments to first update:</p> <ul style="list-style-type: none"> ▪ Consolidation of HRIS and eHR in one department ▪ Rollout of HR web portal – PeopleLink <ul style="list-style-type: none"> → Development of Managers' Toolkit → Health and Safety information online → Online training in safety, technical and management skills → Online organization charts → Interview Builder → Online expatriate information → Online new hire orientation ▪ US/UK HR technology partnership through HR Technology Forum <p>Accomplishments since first update:</p> <ul style="list-style-type: none"> ▪ Infrastructure enhancements to build self-service capabilities: <ul style="list-style-type: none"> → Installation of Position Management module → Installation of Business Unit module → Installation of Benefits Administration module → Job descriptions in PeopleSoft ▪ Online TIA/merit processing ▪ Complete staffing process redesign
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Shared Services Value Delivery Team Best Practice Progress Report–February 2004

Progress : (continued from previous page)

Human Resources (continued)

Accomplishments in 2002

- Moved database to web-based application for flexibility and scalability
- Implemented employee self-service
- Continued reinforcement of HRIS infrastructure
- Online benefit open enrollment
- Online compliance training
- Online Code of Business Conduct process
- Online job application process including applicant tracking

Legal

- Restructuring by the end of 2001 – completed
- Legal risk management initiative – completed
- Outside counsel initiatives – ongoing

Corporate Communications

- Agency Hybrid concept – completed, all CC team members now have an active assignment with our Lines of Business
- Cost center alignment complete
- Development of flexible work force by outsource activities - complete, three additional contractors now in place
- Team alignment complete, 2003 staffing targets achieved

Strategy and Planning

- As previously reported, restructuring has already been

Shared Services Value Delivery Team Best Practice Progress Report–February 2004

Progress: (continued from previous page)	<u>Operating Services</u> <ul style="list-style-type: none">▪ The reorganization of Operating Services was completed in 2001. The Right of Way functions for Distribution were devolved with the reassignment of 4 ROW agents to the service centers. Standardized processes for property documents are being refined during the 1st quarter of 2002.▪ Office space reductions – partially completed in 2002 with the lease negotiations removing 34,000 sq.ft. from inventory. Another 15,000 sq.ft. at Actor's Building to exit the inventory by July 31, 2003. Renovation of existing space to accommodate staff will be completed by 4th quarter, 2003.▪ Devolution – all achieved except for one aspect of fire maintenance – to remain centralized▪ Outsourcing – Light and heavy duty fleet outsourced – Outsourcing complete▪ Facilities Services enhanced existing contracts in general maintenance, fire protection and janitorial to cover non-generation facilities. Document Services contract expanded to cover combined bill print operations and establishment of centralized document imaging application.▪ Targeted savings will be complete by July, 2003 with the elimination of rent from Actor's Building.												
Savings Program	<table><tr><td></td><td><u>2001</u></td><td><u>2002</u></td><td><u>2003</u></td></tr><tr><td>Expenses (\$m)</td><td>6</td><td>10.6</td><td>12.9</td></tr><tr><td>Capital (\$m)</td><td>0</td><td>0</td><td>0</td></tr></table>		<u>2001</u>	<u>2002</u>	<u>2003</u>	Expenses (\$m)	6	10.6	12.9	Capital (\$m)	0	0	0
	<u>2001</u>	<u>2002</u>	<u>2003</u>										
Expenses (\$m)	6	10.6	12.9										
Capital (\$m)	0	0	0										
Cost to Achieve	Expenses (\$m) 15.6												

**POWERGEN, PLC, LG&E ENERGY, LOUISVILLE GAS & ELECTRIC
COMPANY, AND KENTUCKY UTILITIES COMPANY**

CASE NO. 2000-095

Response to Summary of Findings, No. 16

“PowerGen and LG&E Energy should, every 6 months, provide reports on the actual costs of the LG&E Energy acquisition, as described in this Order. The reports should be as of June 30 and December 31...”

With the July 1, 2002, closing of E.ON AG’s acquisition of Powergen plc, which the Commission approved in its Order in Case No. 2001-104, there are no further changes to this schedule. Therefore, the schedule dated December 31, 2001, is the final report.

Please note that the Powergen values have not changed from the December 31, 2000 and June 30, 2001 reports and, therefore, conversions of British Sterling assume 1 British Pound Sterling = \$1.4938, the conversion rate at December 31, 2000. This response is in a format similar to that provided in Case No. 2000-095 Post-Hearing Data Request No. 6.

**POWERGEN, PLC, LG&E ENERGY, LOUISVILLE GAS & ELECTRIC
COMPANY, AND KENTUCKY UTILITIES COMPANY**

CASE NO. 2000-095

Response to Appendix B, Reporting Requirements, To Be Filed Quarterly, No. 1

**“A report detailing the proportionate share of KU and LG&E in LG&E Energy’s
total operating revenues, operating and maintenance expenses and number of
employees.”**

The requested information, as of December 31, 2003, is attached.

PowerGen plc and LG&E Energy Corporation
Case No. 2000-095 - Appendix B, Reporting Requirements To Be Filed Quarterly, No. 1
KU and LG&E Share of Selected LG&E Energy Financial & Operating Numbers
Income Statement Numbers are TME December 31, 2003
Employee Number is as of December 31, 2003

	KU	LG&E
Total Operating Revenues	37.8%	46.5%
Total Operating and Maintenance Expenses	32.6%	42.8%
Number of Employees	27.3%	25.5%

**POWERGEN, PLC, LG&E ENERGY, LOUISVILLE GAS & ELECTRIC
COMPANY, AND KENTUCKY UTILITIES COMPANY**

CASE NO. 2000-095

Response to Appendix B, Reporting Requirements, To Be Filed Quarterly, No. 2

**“The number of employees of LG&E Energy and each subsidiary on the basis of
payroll assignment.”**

The requested information, as of December 31, 2003, is attached.

PowerGen plc and LG&E Energy Corporation
Case No. 2000-095 - Appendix B, Reporting Requirements To Be Filed Quarterly, No. 2
LG&E Energy and Subsidiaries Employees by Payroll Assignment
As of December 31, 2003

LG&E Energy Corp	0
LG&E Service Company	1,004
Kentucky Utilities Company	941
Louisville Gas & Electric Company	879
LG&E Energy Marketing	0
Home Services	0
Enertech	0
LPI-Development	0
LPI-Power Generation	177
Western Kentucky Energy	444
CRC-Evans	0
Total LG&E Capital Corp	621
Total LG&E Energy Corporation and Subsidiaries	3,445